KRISTINE A. SASSER
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
BAR NO. 6618

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE REQUEST TO USE AVAILABLE FUNDS FROM SCHEDULE 95 TO PROMOTE ROOFTOP SOLAR INTALLATIONS ON COMMERCIAL BUILDINGS.	)	**CASE NO. AVU-E-14-10** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 33151 on October 14, 2014, in Case No. AVU-E-14-10, submits the following comments.

BACKGROUND

On September 18, 2014, Avista Corporation dba Avista Utilities, filed an Application with the Commission requesting revisions to its Schedule 95—Optional Renewable Power Rate. The Company seeks to use available/surplus funds from Schedule 95 to promote grants for rooftop solar installations, 20 kW or smaller, on commercial buildings in Idaho. Avista requests that the revisions become effective November 14, 2014. The Commission suspended the proposed effective date in order to allow adequate time to review the Application. *See* Order No. 33151.

Avista states that it is a proponent of utilizing a variety of energy resources, as well as offering energy efficiency measures, to provide safe and reliable service to its customers. The Company's Schedule 95—Optional Renewable Power Rate—allows customers to purchase blocks of renewable power. In furtherance of this objective, the Company would like to expand the awareness of renewable energy generation options, specifically by funding locally-owned, commercial solar, using funds from its current Schedule 95.

Since 2002, Avista has offered electric customers the opportunity to voluntarily support the development of renewable energy by participating in the Company's Buck-a-Block program under its Schedule 95. Avista's wind power option was priced in increments, or "blocks," of $1.00. Each $1.00 block of wind purchased by customers equaled 55 kilowatt hours (kWh).

In 2004, the Company filed revisions to its program. Avista modified the program from an optional wind power rate to an optional renewable power rate. Avista states that these revisions also reflected a lower wholesale cost of wind power to Avista, and represented the cost of renewable energy certificates (RECs) associated with the renewable resource. The RECs were primarily from wind power generated at the Stateline Wind Energy Center, but could also come from other "Green-e certified" resources. The revised program continued to include voluntary participation in increments of $1.00 per block. However, blocks were modified to represent 300 kWh of renewable energy as opposed to the previous 55 kWh. Avista explains that this created an opportunity to enhance the Buck-a-Block program. Presently, this voluntary program continues to allow customers the choice to purchase a "block" of renewable power equal to 300 kWh that is produced through regional projects for $1.00 a block.

According to Avista, approximately 3,500 customers purchased nearly 227,000 blocks (68,000 MWh) in 2013. All of the costs and benefits stay within the program. The Buck-a-Block program requires regular program administration, promotion, and communication with customers. The intent of the program is to continually match funds collected with the annual program costs while balancing the need to collect enough funding to meet potential growth and potentially higher priced RECs. However, due to the availability of low-cost RECs in recent years, and a plateau in subscription levels, it has resulted in surplus revenues that exceed the costs by approximately $200,000. This has prompted the Company to explore additional ways to promote and acquire additional renewable energy for the program.

The Company proposes to use, when available, any available funds from Schedule 95 to promote grants for rooftop solar installations, 20 kW or smaller, on commercial buildings in the

Company's service territory in Idaho and Washington. Successful grant recipients would agree to allow their installation to be made available for the education of its building occupants and members of the community on the merits of solar energy generation and the Buck-a-Block program. Preference for grant recipients would be given to school districts and buildings where the visibility of the installation will have the greatest impact for both educational purposes as well as solar energy generation. Geographic distribution throughout the Company's service territory will also be considered as part of the evaluation.

Avista estimates that the existing $200,000 surplus would fund the installation of 6-8 small projects (5kW or less) or 2 larger projects (20kW or less).[1] After application and screening, grant recipients would be awarded partial or full funding that could fund the cost of a rooftop solar installation, not to exceed $70,000 per site. Costs and risks associated with a site feasibility or assessment study, labor, and contracting costs related to the installation, and ongoing maintenance will be the responsibility of the grant recipient.

STAFF REVIEW

Staff reviewed the Company's Application to determine the impact that the proposed changes would have to the Buck-a-Block program participants and to ratepayers, in general. In 2013, the Company collected $229,003 in Schedule 95 funds. According to the Company, the Buck-a-Block program currently has a surplus of $200,000, and will accrue an additional $150,000 to $200,000 surplus by the end of its 2016 fiscal year (Avista Response to Production Request No. 8). Thus, this surplus represents a substantial, and increasingly large, share of Buck-a-Block program funds. The Company estimates that about 22.4% of this would be collected from the Idaho jurisdiction (Response to Production Request No. 7), for a total of between $78,400 and $89,600.

Staff notes that rooftop solar energy enjoys broad support throughout the Company's service area. The State of Washington, in particular, offers generous incentives for solar power production. For example, under the Washington State Renewable Energy Production Incentive program, residents and businesses can qualify for incentives of between $0.12 and $0.54 per kilowatt hour (kWh) of photovoltaic energy, with the largest incentives paid to program participants who install equipment manufactured in the State of Washington.

[1] Future costs may vary based on market conditions, the size of the installation, and where the equipment is manufactured.

Notwithstanding its popularity, solar energy constitutes only a small fraction of the renewable energy certificates (RECs) purchased by the Buck-a-Block program. According to Avista's 2013 Integrated Resource Plan (IRP), solar energy accounted for 0.2% of Buck-a-Block RECs, with the balance obtained from wind (85%) and biomass (14.8%). In 2013, all solar energy RECs were derived from the Company's 15 kW Rathdrum Prairie Solar Project. The low solar utilization rate can be explained by the high cost of producing solar energy relative to other sources. Avista's Buck-a-Block program website states that solar energy costs the Company $0.35/kWh more than wind energy to produce.

According to its 2013 IRP, Avista's 190 net-metered customers had a total capacity of 1.1 MW, or about 0.5% of Avista's name-plate generating capacity. Eighty-three percent of the energy obtained from net-metered customers was derived from solar energy, with most of the balance derived from wind and biogas systems. The Company noted that 80% of its net-metered installations are in Washington.

In its 2013 IRP, the Company predicted that the number of net-metered customers will increase by approximately 40 per year. The Company further opined that this growth is due, primarily, to generous state and federal subsidies and tax incentives, mostly in Washington. According to the Company, customer produced solar energy costs approximately $0.80/kWh. Federal Investment Tax Credits and favorable depreciation rules can reduce a customer's net cost up to $0.42/kWh. This, coupled with up to $0.54/kWh from the aforementioned Washington State Renewable Energy Production Incentive Program, permits Avista's net-metered customers in Washington to profit from government subsidies and incentives alone. Avista's Net-Metering Option, Schedule 63, effectively permits customers who generate their own power to sell surplus power to Avista at retail cost. This pricing scheme does not permit Avista to fully recover fixed costs associated with net-metered customers. Avista has estimated the unrecovered fixed costs associated with solar power systems that would be funded by the proposed Buck-a-Block modification to be $2,453 per annum on a system basis (Avista Response to Production Request No. 9). Typically these costs would be borne by Avista's ratepayers.

Staff is cognizant of the shift in fixed costs from net-metered customers to the rest of the customer base and is concerned about the potential subsidies. If the program were to experience significant growth, the cost-shift could begin to impact rates. However, the level of uncollected fixed costs associated with this proposal would have little to no impact on customers' rates.

Given the potential to shift fixed cost recovery to other customers, Staff believes the Commission should monitor the growth of the program.

Staff notes that Avista's electric demand has historically peaked during the winter when solar energy generation, whether generated by Avista or by its customers, is at its lowest point. However, in recent years, additional air-conditioning load coupled with warmer winters has created summer peak demand that has been greater than its winter peak. As Avista becomes more of a dual-peaking utility, additional rooftop solar installations may help Avista reduce some of its demand-related costs.

Staff is aware that Buck-a-Block money and expenses are not shouldered by the Company's general ratepayers, but by voluntary contributions from customers interested in supporting renewable energy. Because of its voluntary nature, customers may enroll or drop out of the program at any time. Though the Company's proposal is consistent with the intent of the tariff, there is at least one aspect of the Company's proposed Schedule 95 modification that is troubling. According to the Company's Application, the estimated costs of solar panels produced in Washington State are three times the costs of solar panels produced elsewhere. Avista explained that Washington's incentive programs would more than offset this cost (Avista Response to Production Request No. 1). However, incentive money would be recouped by the system owner, and not by Avista's ratepayers or by Buck-a-Block participants.

Given Washington State's generous incentive programs, it is possible that a disproportionate amount of equipment could be manufactured and installed in Washington, where Buck-a-Block money will purchase only one third as much renewable energy as could be produced by equipment manufactured and installed elsewhere. For Idaho ratepayers, this concern could be ameliorated if Avista were to grant money in proportion to the amount of program money collected from each jurisdiction. Avista has indicated its willingness to do so.

When asked if the Company considered increasing block size, the Company indicated that it felt that the current block size of 300kWh was optimum. The program has consistently been in the top five lowest premiums for programs of this type in the nation, and the Company believes that increasing the size of the blocks would not be very meaningful. Given the excess funds projected for the program through 2016, if the Company were to increase the block size, Staff estimates that a block size of between 375 kWh and 425 kWh would allow the program to remain revenue-neutral, absent any other action.

Though increasing the block size is a simple approach to spend the surplus funds, it might not add much value to the program. Including an additional solar component might further the goal of increasing awareness of alternative energy resources. In addition to increasing community exposure to solar energy, the proposed changes would also provide educational opportunities for the community. Because of the relative infancy of solar generation, along with its rapidly emerging technology, the Company believes that a project funded with surplus Schedule 95 funds is a reasonable way of providing not only value under the original intent of the tariff, but additional opportunities for interested parties to gain first-hand knowledge of photovoltaic systems. Avista stated that preference for grant recipients would be given to school districts and buildings where the visibility of the installation will have the greatest impact for both educational purposes as well as solar generation. Successful grant recipients would agree to allow their installations to be made available for the education of its building occupants and members of the community. Staff believes these benefits have value that outweighs other program concerns at this time.

As of November 20, 2014, all five of the individual customers providing comments supported the Company's proposed Buck-a-Block program changes. None of those who commented stated whether or not they participated in the program.

STAFF RECOMMENDATION

Based on the growing surplus of "Buck-a-Block" funds, Staff recommends that the Commission accept the Company's Schedule 95 proposal with modifications. (1) Staff recommends that the Commission condition its approval on the Company's commitment to disburse grant money in proportion to the amount of Schedule 95 money collected from each jurisdiction. (2) Staff also recommends that the Company be required to expand its annual Schedule 95 report beginning with the 2015 reporting year. In addition to the financial information the Company already provides, the Company should include expenses and benefits for each installation, including a description of the educational and research benefits actually observed, to assist the Commission in determining the additional value provided by the program changes. This additional reporting will allow the Commission to monitor the impact of using Schedule 95 surplus funds to promote the Company's community solar initiative. It will also ensure that uncollected fixed cost recovery from grant recipients does not materially impact customer rates.

Respectfully submitted this 21ST day of November 2014.

Kristine A. Sasser

Kristine A. Sasser
Deputy Attorney General

Technical Staff: Donn English
Mike Morrison

i:umisc:comments/avue14.10ksrps comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 21st DAY OF NOVEMBER 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF TO AVISTA CORPORATION,** IN CASE NO. AVU-E-14-10, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DAVID J MEYER
VP & CHIEF COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-MAIL: david.meyer@avistacorp.com

LINDA GERVAIS
MGR REGULATORY POLICY
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-MAIL: linda.gervais@avistacorp.com

Ryma Quelen
SECRETARY